WESTERN REGIONAL MEETING

Dr. Charles H. Chappell

William Poms

Joseph P. Ciarimboli

Dr. C. Budd Cohen

Dr. Charles H. Chappell, President of Licensing Executives Society, Inc.; William Poms, LES Vice-President - US Western Region; Joseph P. Ciarimboli, LES Trustee; and Dr. C. Budd Cohen were keynote speakers and organizers of the Western Regional Meeting.

Thomas A. Seeman

SUCCESSFUL LICENSING PRACTICES AT A MEDIUM-SIZED MANUFACTURING-ORIENTED COMPANY

by
*Thomas A. Seeman**

Our company, Tridair Industries, is a diversified manufacturing company having approximately $20 million in annual sales and 800 employees. As such it may be considered a medium-sized company. Three principal product lines are manufactured: cargo handling equipment for the aviation industry, specialty fasteners, and fiberglass tub and shower units.

It is our policy to use licensing as an income producing tool, both as a licensor and licensee. My purpose is to briefly relate in a general manner our success as a licensee and why I believe a medium-sized company is a logical choice as a prospective licensee; and secondly, to relate more specifically our current pro-

gram of licensing know-how for the manufacture of fiberglass tub and shower units.

First, I briefly would like to touch on the prospects of licensing a medium-sized company such as ours. In comparison to small and large companies, it is my belief that a medium-sized company offers a better opportunity as a prospective licensee. There are many reasons for this choice and I would like to briefly outline the more important ones. Usually an eingineering department of a company, such as ours, particularly with the type of product mix, is directed to developing improvements on existing products or meeting customer needs and requirements, rather than independent research and development. Yet, in order to expand, there is a definite need for new products. For this reason, management is receptive to, if not actually promoting, receiving licenses to manufacture compatible patented products. Importantly the negative "not invented here" factor, as I often experienced in larger companies, is absent as well as the extended red tape in negotiation prior to reaching a level of management capable of making licensing decisions. In comparison to a small company, the medium-sized company more likely has the resources and staff to adequately market the product.

As a result of our open door licensing policy, our company has enjoyed considerable success in manufacturing and selling licensed products. More than one-half of our sales of our specialty fasteners comprises licensed products and on which substantial contributions to profits have been made. Similarly, we have generated significant income from sales of cargo handling products made possible through licensing. Currently, we are excited about the possibilities of a new product to which exclusive patent rights have been obtained by the company from the inventor.

Our policy is also to license our own patents and know-how where economically and competitively justified. I would like to review one such program wherein we are licensing our know-how for the manufacture of fiberglass tub and shower units to foreign entities. It is hoped that the information obtained with our experience in this program may be of benefit to some members of this society. The program is ambitious to the extent that we are attempting to license on a limited budget relatively unsophisticated know-how relating to the manufacture of unpatented products. Our success demonstrates that this type of know-how should not be overlooked as a source of licensing income.

As mentioned, one of the company's product lines is fiberglass tub and shower units. These units, which are rapidly gaining acceptance in the marketplace and replacing the standard porcelain tub as a standard bathroom fixture, have distinct advantages. In addition to being resistant to chipping or cracking, the time and labor for tile installation, as well as leakage and cleaning problems normally associated with tile, are eliminated.

Briefly, the units are manufactured by applying fiberglass reinforced resin over a pre-formed mold. As a manufacturing by-product, a considerable body of know-how has been accrued by our company relating to this manufacture. Although most of this know-how is relatively unsophisticated, it is such that another manufacturer could acquire it only after considerable expenditures of time and capital for learning and for trial and error experimentation. Consequently, it is of value to a firm desiring to get into the fiberglass tub and shower business. Moreover, by having this information, a manufacturer would have the capability of expanding his production to include other fiberglass products.

Recognizing that fiberglass tub and shower units have market potential in other countries, as well as in the United States, that there is a need for a fiberglass manufacturing capability in underdeveloped countries and that licensing of our know-how enables our company to recover non-recurring costs and obtain profits on otherwise non-profit producing intangible assets without adversely affecting our competitive position, we elected to proceed with a program for licensing this know-how.

As a preliminary step, a manual on our licensing program was prepared for review by prospective licensees. To acquaint the prospective licensees with the product line, we included in the manual a section on product description as well as enclosing sales brochures which portrayed the fiberglass products. In another section, we outlined the typical facilities and equipment a manufacturer would need for commencement of production and the expected required capital investment. Further, we also set forth a hypothetical cost analysis to allow the prospective licensee to gage the profit he might expect from his investment. In addition, suggestions on market analysis and market penetration are provided. In another section of the manual, we outlined the suggested license agreement. Basically the following is offered to a licensee:

1. Know-how to manufacture fiberglass tub and shower units. The know-how includes information on preferred materials and solutions to problems and pitfalls ordinarily associated with fiberglass tub and shower making, as well as information on the manufacturing process itself.
2. Know-how on improvements developed by the company during the course of the license agreement. Provision is made for the extension of the term of the agreement for such know-how received within a certain period prior to the termination date. Thus, the licensee will have the continued benefit of the results of our developmental and engineering efforts in the manufacture and design of fiberglass tub and shower units, and it is hoped that this will encourage the licensee to extend the term of the agreement.
3. Technical training of any two of licensee's employees at our facility in the art of fiberglass tub and shower making and assistance at licensee's plant in the start-up operation. Further consultant services are furnished upon request at normal consulting rates during the life of the agreement.
4. The use of our trademark associated with the fiberglass tub and shower units.

5. Molds for forming fiberglass units, which molds have achieved market acceptance, are also available to the licensee. The cost of these molds is substantially below that which the licensee could expect if it commenced manufacture of its own molds, viewing the developmental costs.
6. If licensee desires, we will also supply raw materials for manufacture, as well as marketing brochures, at our cost plus handling charges.

Although a nonexclusive license agreement will be considered, we prefer to enter into an exclusive agreement. As compensation, we expect an initial front-end payment, a 5% royalty on net sales of the licensed products, and after the first year, a minimum royalty, based on the market potential of the territory.

To market our licensing program and to bring it to the attention of prospective licensees, yet on a limited budget, we have found governmental assistance, both by the United States and by foreign countries, to be of significant benefit. With the recognized need to encourage exports, the United States Department of Commerce has a number of resources and aids that a licensor may utilize in international licensing. In addition to economic data on foreign countries, the department compiles statistics listing exported products and the countries to which they are exported. Thus, by reviewing this information, a licensor may obtain useful information in locating those countries which have a need for the licensed product. In addition, the department has listed what it believes to be the products having the greatest export potential and has compiled substantial data on those countries which offer maximum potential for the use of these products.

In the Department's Foreign Production Control Reports, there is indexed by product code, commercial information received from the Department's representatives in the various foreign countries. Included in this information are requests by foreign firms for technical assistance or for manufacturing licenses from American companies.

The Office of International Finance and Investment will assist in establishing joint ventures or license arrangements overseas. Upon submission of information relating to the proposed license, the Office will transfer it to its representatives in those countries having potential licensees. There, the information will be published in the language of the country and distributed among the trade.

If you intend to introduce a licensable product in a new overseas market, you should be aware of the Joint Export Establishment Promotion (JEEP) programs sponsored by the Department. Approximately one year old, this program provides financial aid and market resources to small and medium-sized companies who desire to exhibit their products in the foreign market, either individually or in a group of two to ten manufacturers. This aid is limited to those companies which have never exported to the particular country where the exhibit is to be held. As part of the program, the Department Trade Centers may be used free of charge. These trade centers are located in Frankfurt, London, Mexico City, Milan, Paris, Stockholm, Sydney, Tokyo, Buenos Aires, Singapore and Beirut. The Department will also assist by identifying prospective customers, promoting the show, and setting up the exhibit. Up to $300 worth of promotion expenses in the foreign country and up to $100 for return to the United States of any unsold merchandise will be paid by the Department. This program is particularly helpful for those companies that have exhibits too small or cannot obtain space for a resular show, or do not desire to wait until the next regular show.

When considering exhibiting abroad, it may be beneficial to contact the Director, Foreign Press Center, United States Information Agency, who maintains directories of foreign journalists based in the United States. Should there be a newsworthy story in your product, the United States Information Agency may assist in arranging for these journalists to visit your plant for story potential. Publicity of this sort prior to an exhibit may greatly promote the show. I have also been informed by the Department of Commerce that the Agency's advertising media abroad — T.V., publications and the like — is being considered as a possible means of promoting exports and assisting licensors.

Finally, we found the World Trader's Data Reports

NOTICE TO ALL LES MEMBERS
"GREAT EXPERIENCES IN LICENSING"

The Editor and Editorial Board of Les Nouvelles needs your help on a project suggested by LES member, Bob Goldscheider. The LES survey indicated that a majority feel that a prime lack in Les Nouvelles is good licensing case histories. We want to fulfill this need and to publish more case histories, but to do so, we need the material. Accordingly, we ask your help. Do you know of a good case history? Can you (or do you know someone who can) write a good case history? If so, please consider the following and let us know.

Write to: Dudley B. Smith
Chairman, LES Publications Committee
Celanese Corporation
522 Fifth Avenue
New York, N. Y. 10036 USA

Here are a few examples and maybe you can identify for us the person who could write on one of these (or other) subjects:

1. The Wankel Engine licensing
2. The Excello Milk Carton licensing
3. Sanforized licensing
4. Tetra Pak licensing
5. RCA television/radio licensing
6. Pilkington Float Glass licensing
7. Coca Cola and/or Pepsi Cola

After we have run a series of these case histories, we next plan a possible compilation in book form. Now is the time for you to help. Send us your suggested case histories and suggested authors. Thank you.

(WTDR) published by the Department is of assistance in obtaining commercial information — credit rating and the like — on a prospective licensee.

We have received assistance from foreign governments in addition to that received by the Department of Commerce. For example, the Government of Ontario, Canada, has representatives of its Departments of Trade and Development in various United States cities. The Department has a program for bringing new technology into Ontario which has been widely accepted in the United States. After completing a questionaire provided by the Department, the Department will introduce the licensor to prospective licensees in Ontario.

As a result of the above program, and with the aid of government assistance, several license agreements have been executed and execution of additional agreements with licensees in other countries appear imminent. We look forward to continued success.

**About the Speaker: Thomas A. Seeman, Director of Patents and Assistant General Counsel Tridair Industries, received his BS, 1957 - Pennsylvania State University; JD, 1968 - George Washington University; private practice in Washington, D.C. Associate with a firm in Tampa, Florida. Division Patent Counsel for Litton, Woodland Hills, California. Presently with Tridair Industries, Redondo Beach, California. Director of Patents and Assistant General Counsel. Member of Florida, Virginia and California bars.*

Raymond A. Bogucki

"AN INNOVATIVE LICENSING APPROACH — TEAMING THE PATENT ATTORNEY WITH HIS ENTREPRENEURAL CLIENT"

by
*R. A. Bogucki**

Regardless of what the title says, this is the story of a small company licensing program on a proprietary item. The item is a plastic package for disposable medical items, now being produced by the millions. The inventor is the principal of the company, which previously had no significant experience or reputation in medical packages. This case history therefore exemplifies a bootstrap effort, both in development of the product and in licensing.

At the time of the conception of the invention, the inventor had a significant number of intangible assets, including principally his own independence of decision, substantial experience as a businessman, and engineering talent in both plastics and machinery. In addition, he had faith and confidence in his invention, and sufficient persistence to continue its development despite the daily demands of his business. On the negative side, there was neither the capital nor the manpower to pursue this at the pace which he would have liked, and in addition to a lack of corporate recognition in the medical packaging field there was also considerable uncertainty as to whether and how the products could be sold.

The initial period of development took more than two years, but the most significant thing that was done from the standpoint of subsequent developments was that the machine capability was improved concurrently with refinement of the product. Concurrently, and probably of equal importance, a close working relationship was developed with one particular customer, which took all of the initial output. Although production was not significant, this meant that the product was in use on a regular commercial basis, and that also meant that the machinery had to achieve satisfactory rates of manufacture, considering both hourly production and down time, and with a satisfactorily high yield.

Several years after conception of the invention, with the medical packaging product being made as an adjunct to the major business of the company, various parties began to show a significant interest in its potential. These parties included a potential large-scale user, a large diversified company and a small company that was a direct competitor. In each case the contact was made by the other party with the inventor, usually under accidental circumstances. The first company was interested in a license (the patent having issued by then), and in production machines; the second company said they were interested in acquiring the entire company of the inventor; and the third company was interested in a close working relationsthip, or so they said. After wining and dining the inventor while getting such information as they could they were not heard from again until they introduced an infringing product.

Discussions with the first and second companies were carried forward for more than a year in each instance. It was not necessary to spend much time convincing either of these parties of the potential of the medical package — each probably had considerably better estimates of the product than we did. Both however professed to be much concerned with the scope of the patent, with protection against subsequent infringers and with the effective throughput of the machines. Negotiations with the first party could have